

BRIEF

THE DEFENCE INDUSTRY

EUROPEANISING NATO NO. 6

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Defence industrial bases are vital for security of supply to the armed forces. Forgoing domestic production risks industrial dependency, which describes the need for imports due to a lack of industrial or technological capability, and political dependency, which reflects the unwillingness of potential exporters to supply systems, components, or spare parts. These are interlinked, as industrial dependencies in Europe—especially on the US defence industrial base—might become aggravated if US political priorities shift further away from the continent. This need not manifest as an outright refusal by the US to sell equipment, but rather as prioritisation that leaves European customers in a difficult position given the compressed timelines of the current security environment.

Nonetheless, significant economic and political opportunities for the European Defence and Technological Industrial Base (EDTIB) and its customers exist today. Economically, increased defence spending, EU schemes like the European Defence Industry Programme and the Act in Support of Ammunition Production, and comparatively easy access to private money are already changing the industrial ecosystem. Politically, an acute threat perception, ambitious NATO goals, a changing US stance, schemes for industrial cooperation with Ukraine, and perceived time pressure could reshape state-industry relations.

Industry, as the supplier of defence materials, should be closely attuned to the theory of victory and specific demands of domestic and allied customers. However, in practice, defence industrial proficiencies also feed back into the armed forces' preferences for their way of war.

Thus, the shape of the future EDTIB is highly contingent on other developments underpinning a more Europeanised NATO, especially national defence industrial policies, the balance between nuclear and conventional deterrence, doctrinal changes (the 'European way of war'), NATO-wide standardisation, and military innovation.

REQUIREMENTS AND VISION

Nevertheless, envisioning an ideal EDTIB and identifying which abilities this ecosystem must master should provide a clearer view of the way forward. A maximalist vision for the EDTIB could be one that can independently and competitively design, produce and maintain the required high-mid- and low-tech equipment at scale and across domains. Crucial elements of this vision include production capacity, innovation and adaptability, quality and timeliness, economics and competitiveness, and dependencies.

Defence industrial proficiencies also feed back into the armed forces' preferences for their way of war

Europe's present production capacity is clearly insufficient, especially when weighed against attrition and combat losses in long-duration, high-intensity warfare.¹ Innovation and adaptability relate to the perceived need of western forces to preserve technological superiority against even a peer adversary, while also highlighting the need to adapt to unforeseeable developments during war.² As the coming years are widely seen as crucial for European rearmament efforts, delivery timelines

and maintaining the quality of delivered equipment under accelerated design and production schedules will remain a challenge. Cost-efficient and internationally competitive production will become more important in the longer term to absorb potential production overcapacity as political backing for higher defence spending fades. Lastly, non-European dependencies at the resource, component, and system levels will need to be reduced. Few of these requirements are truly new and, despite the present opportunities, longstanding challenges that have shaped the EDTIB for decades are unlikely to vanish.

ENDURING CHALLENGES

Remaking the EDTIB will require overcoming entrenched political barriers and introducing new organisational models that may run contrary to industrial interests. Politically, the hope of solidifying a security relationship with an exporter, for example, remains a major motivation, especially in alliance contexts. This was a major reason why European countries procured systems from the US—especially those on the European periphery, with less developed defence industries and heightened threat perceptions, e.g., Norway and Greece. Other Europeans, especially the so-called Letter of Intent+ countries, which make up the established core of the EDTIB, also factor in domestic industrial policies.³ Retaining well-paid jobs and related supply chains often weigh heavily in procurement decisions. Additionally, meeting complex armed forces' requirements can often favour bespoke domestic solutions.

With the US perceived as a less reliable Ally, procurements may become more open to other suppliers

With the US perceived as a less reliable Ally and—potentially more importantly—a less reliable supplier due to diverging priorities and constrained production capacity, procurements may become less dependent on the security relationship and more open to other suppliers. At the same time, higher defence spending and a significantly larger share for procurement will increase political pressure to spend money

nationally, whether in domestic industry or via offset contracts. Consequently, the EDTIB will remain dispersed and fragmented.

Company policies are also largely unchanged. While talk of disruption is common, there has been no fundamental rethinking of Europe's defence industrial structures. Primes seek to maintain their position, leveraging existing scale and access to capital to grow where possible. Neo-primes and larger start-ups try to scale and branch out geographically and across their product families, driven by the logic of private capital to reap the benefits of their investments and US role models.⁴ They aim to join or replace the top dogs, not to change the system.

Meanwhile, European governments facing compressed timelines are focused on rapprochement with industry. But closer relations, more pronounced support and, in some states, a dawning realisation of the importance of the defence industry cannot lead to structural change. Lastly, the traditional European cooperation catch-22 remains: more successful Europeanisation that delivers scale, innovation, dependency reduction, and affordability would attract more European buy-in, but also requires upfront buy-in to succeed.

ACHIEVABLE PROSPECTS

Change, however, is not impossible, at least in principle. Scaling production, for example, can benefit from licence- and co-production. This was applied in national contexts during the Cold War and is used today in some European supply chains that originate from earlier offset deals in cooperation with the US, and now with Ukraine.⁵ Additionally, procurement contracts could stipulate that to secure funding, losing project bidders must also be included in supply chains, thus retaining sufficient resources to compete in future tenders and counteract further industry concentration.⁶ Integrating civilian expertise—either via mergers and acquisitions or hiring from industries more attuned to mass production—can introduce new methods and learning, particularly to primes.⁷ For future European projects, retaining component commonality is crucial, even if system-level commonality is not achieved.⁸ Lastly, distributing production across the

continent makes sense from both a capacity and resilience perspective, given the likelihood of attacks on industry during a conflict.⁹

Managing spin-offs and spin-ins more effectively to increase civilian-military cross-pollination is an obvious path to boosting innovation and adaptability. But this is rather a long-term goal that requires distinct ecosystem- and policy-building akin to that in the US after the 'Sputnik Shock'.¹⁰ The most radical way to change current innovation processes would be to reorganise how innovation is structured in the EDTIB, especially for conceptual innovation. Instead of disruptive innovators looking to scale like primes, a new system could feature small design bureaus that hand over innovations to established actors for project implementation.¹¹

Adaptability is key for learning organisations, and few environments require more learning than war. Both horizontal and vertical learning have an industry dimension, as different producers and different supply chain levels will have to take lessons in producing equipment into account during conflict. Organising this exchange will require close cooperation between armed forces and defence industry, in turn requiring political and legal leeway. One option might be to use Europe's larger defence spending to buy IP from industry so it can be exchanged or shared with Allies, alongside open or sovereign architectures, e.g., in operating system software.

Achieving scale would already improve delivery quality and timeliness.¹² Additionally, localising production of foreign defence products in Europe would help achieve greater independence while shortening delivery timelines for equipment and increasing overall production capacity, a key motivation for partners with capacity constraints. But localisation must go hand in hand with integrating European suppliers into the supply chain; otherwise, bottlenecks and dependencies will simply shift further down in them. In the short term, though, imports will remain crucial.

Economies of scale and learning would also decrease prices and help future international competitiveness. More active political support for exports will remain important, as will instruments like government-to-government and

multinational initiatives such as the Common Armoured Vehicle System programme—especially if, to achieve scale, national procurement contracts might have to be larger than national armed forces' requirements. Depending on the degree of doctrinal shift away from the US, European products might also become more distinctively tied to a way of war more attractive to international customers facing similar constraints. This would be a tough sell, though, given the widespread perception of the US as the military prime, which other states tend to copy.¹³

European products might become more attractive to international customers facing similar constraints

Lastly, a range of well-known measures could help lessen dependencies from resource to system level. Localised licence-production by foreign suppliers is a first measure, as is moving towards more European projects in the mid-to-long term. Further investments along the supply chain are equally important, including stockpiling and clear emergency prioritisation for defence applications in crisis or war.¹⁴ Given the limited supplier base, particularly for resources, Europe could also leverage its size to its advantage in joint negotiations with potential partners.¹⁵

RECOMMENDATIONS

Reconfiguring the EDTIB for a more European NATO is possible but, like all serious reforms, entails high political cost. It is unreasonable to hope that private companies will change their current behaviour without state-induced incentives and pressure.¹⁶ Similarly, armed forces will struggle to water down national bespoke requirements without incentives or a reform of laws, for example, those governing risks in the employment of equipment. As populations are demanding results from both governments and companies, European governments should:

- Pursue a tougher stance towards industry to finance and force solutions like licence-production and IP-sharing.
- In countries with a politicised procurement process, take a tougher stance to ensure

armed forces set specific requirements that increase commonality instead of bespoke solutions.

- Change laws governing elements of those requirements, e.g., workplace safety. This will increase risk and, therefore, accidents, which will entail political costs.

- For the EU's industrial policy and national export approvals: wherever possible, cooperate with and guide industry to distribute production scale-ups across Europe to increase political buy-in and production resilience—despite efficiency downsides.¹⁷

ENDNOTES

¹ Nothing about this is new, though. See e.g., Torben Schütz, "[Der Lange Schatten Der Standardisierung in Allianzen – Technologische Pfadabhängigkeit, Strategische Tiefe Und Globaler Rüstungsmarkt](#)" [The Long Shadow of Standardisation in Alliances – Technological Path Dependence, Strategic Depth and the Global Arms Market], "SIRIUS – Zeitschrift Für Strategische Analysen" 8:2 (March 2024), 184–201.

² See e.g., David W Barno and Nora Bensahel, *Adaptation under Fire: How Militaries Change in Wartime* (Oxford University Press, 2020); Meir Finkel, *On Flexibility: Recovery from Technological and Doctrinal Surprise on the Battlefield* (Stanford University Press, 2011); Frank G Hoffman, *Mars Adapting: Military Change during War* (Naval Institute Press, 2021).

³ Letter of Intent countries: Germany, France, Italy, Spain, Sweden, United Kingdom. Lol+: adding Poland.

⁴ Elke Schwarz, "[From Blitzkrieg to Blitzscaling: Assessing the Impact of Venture Capital Dynamics on Military Norms](#)," *Finance and Society*, 7 January 2025, 1–24.

⁵ See e.g., production of Leopard 2 hulls in Greece (Jon Hawkes, *X Post*, 31 July 2020); "[European Patriot Plant to Begin Production in 2027](#)," *IO Team*, 10 August 2026; Simone Chiusa, "[Ukrainian Drone Co-Production in Europe](#)," *GeopolReport*, 28 July 2026.

⁶ Andrea Gilli and Mauro Gilli, "[European Defence Cooperation in the Second Machine Age](#)," *European Union Institute for Security Studies*, 26 April 2017.

⁷ Sassan Parvin. 2026, "[Scaling like the Automotive Industry? Which Skills Are Transferable?](#)" *Handelsblatt*, 24 August 2026.

⁸ Brendan McNally, "[The MBT-70 Main Battle Tank Program](#)," *DefenseMediaNetwork*, 19 September 2016.

⁹ As described in the reports attached to C Todd Lopez, "[DOD Report: Consolidation of Defense Industrial Base Poses Risks to National Security](#)," 16 February 2022.

¹⁰ Raluca Cernatoni, "[Europe Needs a Strategy for Its Turn to New Defense Tech](#)," *Carnegie Europe*, 23 June 2026; see e.g., Linda Weiss, *America Inc.? Innovation and Enterprise in the National Security State* (Cornell Studies in Political Economy, Cornell University Press: 2014).

¹¹ Heiko Borchert, Torben Schütz and Joseph Verbovsky, "[Adaptive Portfolio: Catalysing NATO's Performance Through Innovation](#)," *GLOBSEC*, 3 May 2022.

¹² Economies of scale and learning are generally associated with significant price decreases, production error reduction and shorter production times.

¹³ This pattern is visible in historical developments like the shift from France to Prussia being the 'model nation' after 1871, as well as more modern examples, e.g., China's military modernisation after the 1991 Gulf War.

¹⁴ And can have an effect, see e.g., Japanese developments after 2010: Takahiro Kamisuna, "[Japan's Economic Statecraft of Rare Earths](#)," *International Institute for Strategic Studies*, 27 February 2026.

¹⁵ Sophia Becker, Christian Mölling and Torben Schütz, "[The Future of UK-Germany Defence Industrial Cooperation](#)," *The Policy Institute, King's College London*, November 2020.

¹⁶ "[The Future War and Deterrence Conference](#)," *Wilton Park and the Alphen Group*, 2022.

¹⁷ Rafael Loss, Marta Prochwicz Jazowska and Jana Puglierin, "[Making Defence European Again](#)," *European Council on Foreign Relations*, 4 June 2026.

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